

May 2004

FISCAL INFORMATION SUMMARY

This memorandum provides fiscal information reflecting the March 2003 revenue forecast regarding major tax types and key cost areas.

1. **Sales and use tax revenue.** The estimated impact on state general fund revenues of a one percentage point change in the state's 5 percent sales and use tax, including the motor vehicle excise tax, is approximately **\$174 million per biennium**, or \$87 million per year for the 2003-05 biennium based on the 2003 legislative revenue forecast. The following schedule shows general fund revenue collections from sales and use taxes, including motor vehicle excise taxes, for the 1997-99 through 2003-05 bienniums:

Biennium	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Biennium
1997-99	\$664.4	
1999-2001	\$722.2	8.7%
2001-03	\$760.2	5.3%
2003-05 (legislative estimate)	\$801.5	5.4%

2. **Individual income tax revenue.** House Bill No. 1399 (2001) decoupled the state income tax from the federal income tax to a rate based on federal taxable income. The equivalent tax rates range from approximately 2.1 to 5.54 percent of taxable income. The estimated impact on state general fund revenues of a 10 percent change in the state income tax rates (for example, the 3.92 percent rate would increase to 4.31 percent) is approximately **\$43.53 million per biennium** or \$21.77 million per year, for the 2003-05 biennium based on the 2003 legislative revenue forecast. The following schedule shows general fund revenue collections from individual income taxes for the 1997-99 through 2003-05 bienniums:

Biennium	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Biennium
1997-99	\$358.3	
1999-2001	\$409.3	14.2%
2001-03	\$396.2	(3.2%)
2003-05 (legislative estimate)	\$435.3	9.9%

3. **Gas tax revenues.** A one cent gas tax increase over the current 21 cents per gallon raises an estimated \$3.5 million per year or **\$7 million for a biennium**. A one cent special fuels (diesel) tax increase over the current 21 cents per gallon raises an estimated \$1.55 million or \$3.1 million per biennium. Of the \$10.1 million total, \$6.4 million or 63 percent is deposited in the state highway fund and \$3.7 million or 37 percent is distributed to counties and cities.
4. **Oil tax revenue.** The estimated impact on state revenues of a \$1 increase or decrease in the price of a barrel of oil is approximately **\$2.4 million per biennium** (oil and gas production and oil extraction tax collections based on the production and price estimates made for the 2003-05 biennium (March 2003 legislative revenue forecast)). North Dakota Century Code Section 57-51.1-07.2 provides that at the end of any biennium if oil and gas production and extraction tax collections during the biennium exceed \$71 million, the excess amount must be transferred from the general fund to the permanent oil tax trust fund. Money in the permanent oil tax trust fund may only be spent upon approval of two-thirds of the members-elect of each house of the Legislative Assembly. North Dakota Century Code Section 57-51.1-07.3, created by 2003 Senate Bill No. 2311, establishes an oil and gas research fund. Section 57-51.1-07.3 provides that in the 2003-05 biennium, the first \$50,000 of revenue from the state's share of the oil and gas production tax and oil extraction tax be deposited in the oil and gas research fund. After the 2003-05 biennium, 2 percent of the state's share of the oil and gas gross production tax and oil extraction tax revenues, up to \$1.3 million per biennium, are to be deposited into the oil and gas research fund. All money deposited in the oil and gas research fund is appropriated as a continuing appropriation to the Oil and Gas Research Council. During the 2003-05 biennium, \$11.91 million was transferred from the permanent oil tax trust fund to the general fund, pursuant to Section 6 of 2003 Senate Bill No. 2015. Oil and gas production tax and oil extraction tax are estimated to exceed \$71 million by approximately \$700,000 during the 2003-05 biennium. The June 30, 2005, balance in the permanent oil tax trust fund is estimated to be \$1.6 million. The following schedule presents general fund revenue collections from oil and gas taxes for the 1997-99 through 2003-05 bienniums:

Biennium	Actual or Estimated Revenue (In Millions)	Percentage Change From Previous Biennium
1997-99	\$43.7	
1999-2001	\$62.0*	41.9%
2001-03	\$62.0*	0.0%
2003-05 (legislative estimate)	\$71.0*	14.5%
*Transfers to the permanent oil tax trust fund were \$13.2 million for the 1999-2001 biennium, and \$7.6 million for the 2001-03 biennium. It is estimated that approximately \$700,000 will be transferred to the permanent oil tax trust fund for the 2003-05 biennium.		

5. **Oil prices.** The following schedule compares estimates during the 2003 Legislative Assembly to actual oil prices during the 2003-05 biennium:

Quarter/ Month	Estimated Average Price Per Barrel During 2001 Legislative Assembly	Actual Average Price Per Barrel ¹	Amount Over (Under) Original Estimate
July-September 2003	\$26.24	\$25.18	(\$1.06)
October-December 2003	\$23.95	\$25.78	\$1.83
January-March 2004	\$23.23	\$29.45	\$6.29
¹ The actual market price per barrel of oil is the Tesoro-posted field price for North Dakota sweet crude, including the Montana counties of Sheridan, Roosevelt, and Richland.			

6. **Tobacco settlement payments.** North Dakota has received \$129.5 million as of May 2004 as a result of the tobacco settlement and that has been deposited in the tobacco settlement trust fund. The tobacco settlement trust fund collections are allocated among the community health trust fund, common schools trust fund, and water development trust fund, pursuant to North Dakota Century Code Section 54-27-25, as follows:

	Community Health Trust Fund (10%)	Common Schools Trust Fund (45%)	Water Development Trust Fund (45%)	Total Tobacco Settlement Collections
1999-2001 (Actual)	\$5,290,078	\$23,805,353	\$23,805,353	\$52,900,784
2001-03 (Actual)	5,363,637	24,136,363	24,136,363	53,636,363
2003-05 (As of May 2004)	2,298,326	10,342,465	10,342,465	22,983,256
2003-05 (Estimated remaining payments)	2,297,207	10,337,430	10,337,430	22,972,067
Total 2003-05 estimated through June 30, 2005	\$15,249,248	\$68,621,611	\$68,621,611	\$152,492,470

Total collections for the next 10 years as estimated by the Office of Management and Budget are:

2005-07	\$45,944,100
2007-09	\$73,687,000
2009-11	\$73,687,000
2011-13	\$73,687,000
2013-15	\$73,687,000

Collections are estimated to total \$776,888,000 through the year 2025. This compares to a total of \$866,800,000 projected during the 1999 Legislative Assembly.

7. **Foundation aid payments.** The estimated cost of a \$10 increase in the foundation aid per student payment is approximately \$1 million per year. This is based on the current estimate of 104,475 weighted students for the 2004-05 school year.

Statutory per student payments for the 2003-05 biennium are \$2,509 for the first year and \$2,623 for the second year.

8. **Teacher payments.** The 2001 Legislative Assembly provided teacher compensation payments of \$1,000 for the first year of the 2001-03 biennium and \$2,000 for the second year (second-year total of \$3,000). The 2003 Legislative Assembly continued the teacher compensation payments at the same level approved by the 2001 Legislative Assembly at a total cost of \$51,854,000. The estimated cost to provide additional teacher compensation payments of \$1,000 per third-year returning teacher in the first year of the 2005-07 biennium and an additional \$1,000 per fourth-year returning teacher in the second year of the biennium is approximately \$25.9 million. This is based on the current estimate of 8,650 full-time equivalent instructional personnel for the 2003-04 school year.

9. **State employee salary increase, excluding higher education.** The estimated cost of a 1 percent state employee salary increase per year, including fringe benefits is \$3.4 million, of which \$1.7 million is from the general fund. This estimate excludes higher education employees.

10. **Inflationary increases.** The historic and projected consumer price indexes as recorded or projected by Economy.com based on the consumer price index for all urban consumers are:

1991	4.2%	2000	3.4%
1992	3.0%	2001	2.8%
1993	3.0%	2002	1.6%
1994	2.6%	2003	2.3%
1995	2.8%	2004	2.0%
1996	2.9%	2005	1.3%
1997	2.3%	2006	1.9%
1998	1.5%	2007	2.3%
1999	2.2%	2008	2.3%